
826 VALENCIA, INC.

FINANCIAL STATEMENTS

June 30, 2021

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2020)

CROSBY & KANEDA

Certified Public Accountants
for Nonprofit Organizations

826 VALENCIA, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
826 Valencia, Inc.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of 826 Valencia, Inc., which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 826 Valencia, Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited 826 Valencia Inc.'s June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Crosby & Lameda CPAs LLP

Oakland, California
February 9, 2022

826 VALENCIA, INC.

**Statement of Financial Position
June 30, 2021
(With Comparative Totals as of June 30, 2020)**

	2021	2020
Assets		
Assets		
Cash and cash equivalents	\$ 2,167,391	\$ 2,667,576
Accounts receivable	155,620	238,929
Contributions receivable (Note 3)	988,197	847,570
Investments		
Undesignated	4,939,323	2,726,027
Board designated	1,831,546	1,642,046
With donor restrictions	658,877	1,193,781
Total investments (Note 4)	7,429,746	5,561,854
Prepaid expenses and deposits	122,267	185,232
Inventory	58,846	73,700
Property and equipment, net (Note 6)	1,964,675	2,176,290
Total assets	12,886,742	11,751,151
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 65,621	\$ 105,117
Accrued vacation	79,883	88,765
Scholarships payable (Note 9)	217,392	226,185
PPP loan (Note 7)	487,317	479,300
Accrued rent	115,932	110,084
Total liabilities	966,145	1,009,451
Net assets		
Without donor restrictions (Note 11)	10,566,720	8,887,919
With donor restrictions (Note 12)	1,353,877	1,853,781
Total Net Assets	11,920,597	10,741,700
Total Liabilities and Net Assets	\$ 12,886,742	\$ 11,751,151

See Notes to the Financial Statements

826 VALENCIA, INC.

**Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)**

	Without Donor Restrictions	With Donor Restrictions	Total	
			2021	2020
Support and Revenue				
Support				
Foundation grants	\$ 569,221	\$ 1,112,489	\$ 1,681,710	\$ 1,132,270
Individual contributions	1,507,616	75,447	1,583,063	2,560,450
Corporate support	108,331	32,000	140,331	599,366
Government grants	102,764	521,628	624,392	511,285
Paycheck Protection Program (Note 7)	479,300		479,300	-
Fundraising event, net (Note 13)	309,752		309,752	-
In-kind Support (Note 14)	87,981		87,981	124,300
Total Support	<u>3,164,965</u>	<u>1,741,564</u>	<u>4,906,529</u>	<u>4,927,671</u>
Revenue				
Store revenue, net (Note 15)	10,339		10,339	72,979
Investment activity, net (Note 4)	358,913		358,913	125,498
Other	13,611		13,611	12,432
Total Revenue	<u>382,863</u>	<u>-</u>	<u>382,863</u>	<u>210,909</u>
Support provided by expiring time and purpose restrictions	<u>2,241,468</u>	<u>(2,241,468)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>5,789,296</u>	<u>(499,904)</u>	<u>5,289,392</u>	<u>5,138,580</u>
Expenses				
Program	3,346,616		3,346,616	3,539,126
Management and general	384,423		384,423	428,909
Fundraising	379,456		379,456	416,427
Total Expenses	<u>4,110,495</u>	<u>-</u>	<u>4,110,495</u>	<u>4,384,462</u>
Change in net assets	1,678,801	(499,904)	1,178,897	754,118
Net Assets, beginning of year	<u>8,887,919</u>	<u>1,853,781</u>	<u>10,741,700</u>	<u>9,987,582</u>
Net Assets, end of year	<u>\$ 10,566,720</u>	<u>\$ 1,353,877</u>	<u>\$ 11,920,597</u>	<u>\$ 10,741,700</u>

See Notes to the Financial Statements

826 VALENCIA, INC.

Statement of Cash Flows
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 1,178,897	\$ 754,118
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	216,994	220,259
Investment activity, net	(358,913)	(125,498)
Donated stock	(3,639)	(6,370)
PPP Loan forgiven	(479,300)	-
Changes in assets and liabilities:		
Accounts receivable	83,309	(231,796)
Contributions receivable	(140,627)	690,678
Prepaid expenses	62,965	(18,340)
Inventory	14,854	(5,690)
Accounts payable and accrued expenses	(39,496)	5,657
Accrued vacation	(8,882)	23,720
Scholarships payable	(8,793)	(67,995)
Accrued rent	5,848	11,386
Net cash provided (used) by operating activities	523,217	1,250,129
Cash flows from investing activities		
Purchases of investments	(1,505,340)	-
Purchase of property and equipment	(5,379)	(7,173)
Net cash provided (used) by investing activities	(1,510,719)	(7,173)
Cash flows from financing activities		
Proceeds from PPP loan - first round	-	479,300
Proceeds from PPP loan - second round	487,317	-
Net cash provided (used) by financing activities	487,317	479,300
Net change in cash and cash equivalents	(500,185)	1,722,256
Cash and cash equivalents, beginning of year	2,667,576	945,320
Cash and cash equivalents, end of year	\$ 2,167,391	\$ 2,667,576

See Notes to the Financial Statements

826 VALENCIA, INC.

**Statement of Functional Expenses
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)**

	Program	Management and general	Fundraising	Total	
				2021	2020
Salaries	\$ 1,968,110	\$ 178,209	\$ 269,895	\$ 2,416,214	\$ 2,407,571
Benefits	214,722	15,307	19,849	249,878	220,110
Payroll taxes	132,066	13,656	19,701	165,423	183,554
Total Personnel	<u>2,314,898</u>	<u>207,172</u>	<u>309,445</u>	<u>2,831,515</u>	<u>2,811,235</u>
Scholarships and awards	8,707	-	-	8,707	40,500
Fees for service	26,382	82,269	136	108,787	159,322
Supplies and office expenses	92,617	18,252	10,552	121,421	162,846
Information technology	6,521	9,369	2,763	18,653	20,039
Travel	2,377	294	1,861	4,532	24,142
Occupancy	240,066	33,348	16,240	289,654	303,468
Events and meetings	949	-	1,414	2,363	9,290
Insurance	14,785	1,049	1,368	17,202	17,826
Payments to affiliates (Note 19)	25,785	1,829	2,386	30,000	60,000
Depreciation	186,010	20,662	10,322	216,994	220,259
Americorps, volunteers and interns	311,428	8	1,210	312,646	341,083
Publications	6,391	-	19,167	25,558	67,588
Staff development, outreach, appreciation	21,719	10,171	2,592	34,482	22,564
In-kind goods and services	87,981	-	-	87,981	124,300
Total expenses by function	<u>\$ 3,346,616</u>	<u>\$ 384,423</u>	<u>\$ 379,456</u>	<u>\$ 4,110,495</u>	<u>\$ 4,384,462</u>
Expenses reported on a net basis on statement of activities					
Event expenses	-	-	-	60,080	-
Total Expenses	<u>\$ 3,346,616</u>	<u>\$ 384,423</u>	<u>\$ 379,456</u>	<u>\$ 4,170,575</u>	<u>\$ 4,384,462</u>

See Notes to the Financial Statements

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for the Year Ended June 30, 2020)

NOTE 1: NATURE OF ACTIVITIES

826 Valencia (the Organization) is a nonprofit organization dedicated to supporting under-resourced students ages six to eighteen with their creative and expository writing skills and to helping teachers inspire their students to write. Our services are structured around the understanding that great leaps in learning can happen with one-on-one attention and that strong writing skills are fundamental to future success.

826 Valencia comprises two writing centers—our flagship location in the Mission District and a second center in the Tenderloin neighborhood—and three satellite classrooms at nearby public Organizations. All of our programs are offered free of charge to make them accessible to the students who would not otherwise be able to access our support.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions – are resources available to support operations. The only limits on the use of the net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – are resources that are restricted by a donor for use for a particular purpose or in a particular period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions.

The Organization's unspent contributions are included in this class if the donor limited their use, as are its donor-restricted endowment funds and its beneficial interest in perpetual trust held by a bank or trustee.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of building or equipment (or less commonly, the contribution of those net assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for the Year Ended June 30, 2020)

Organization, unless the donor provides more specific directions about the period of its use.

Accounting for Revenue

The Organization recognizes revenue as performance obligations are satisfied.

Revenue is recognized over time when any of the following conditions are met: The customer receives and consumes the benefits provided by the Organization's performance as the Organization performs; the Organization's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or the work does not create an asset with an alternative use to the Organization and the entity has a right to payment for performance completed to date.

Revenue is recognized over time for cost reimbursement contracts as eligible expenses are incurred if other conditions of the contract are satisfied. Revenue from agreements that include milestones and milestone payments are recognized over time as milestones are reached. Revenue from agreements based on hourly rates are recognized over time as time is expended if the Organization expects it will have an enforceable right to payment for such amounts. Revenue is recognized based on estimated progress towards complete satisfaction of the performance obligation if the Organization can reasonably measure such progress. If the Organization's efforts are expended evenly throughout the performance period, the Organization may recognize revenue on a straight-line basis over such a period.

Revenue is recognized at a point in time when goods or services are provided to customers and the Organization is not required to provide additional goods or services or if the above criteria are not met. Revenue from the sales of goods or merchandise are recognized at the point in time when the goods or merchandise are provided to the customer.

The Organization tracks contract assets representing earned amounts that are not yet receivable separately from accounts receivable, if any. As a practical expedient the Organization disregards the effects of potential financing components if the period between payment and performance is one year or less.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period.

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless the contributed assets are specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

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Notes to the Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for the Year Ended June 30, 2020)

Accounts Receivable

Accounts receivable are primarily unsecured non-interest-bearing amounts due from grantors on a cost reimbursement or performance grants. The Organization considers all accounts receivable to be fully collectible at June 30, 2021. Accordingly, no allowance for doubtful accounts was deemed necessary. If amounts become uncollectible, they are charged to expense in the period in which that determination is made.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). The Organization has evaluated its current tax positions as of June 30, 2021 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all money market funds and other highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

The Organization classifies cash equivalents held for investments purposes in its investments accounts as part of its investment balances and reports transfers to and from such accounts as purchases and sales of investments for statement of cash flow purposes.

Inventory

The Organization reports inventory at the lower of cost or market, computed on an average cost basis. Inventory consists of storefront merchandise, original publications, and donated publications.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost. The Organization capitalizes all expenditures for property and equipment over \$2,500; the fair

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Notes to the Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for the Year Ended June 30, 2020)

value of donated fixed assets is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Furniture and equipment	3-5 years
Computer software	3 years
Computer hardware	3 years
Leasehold improvements	13 - 15 years or lease term

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable.

Accrued Rent

Certain of the Organizations leases may include non-level payment terms or rent-free periods. The Organization recognizes rental expense for minimum lease payments from operating leases on a straight-line basis over the lease term, including any additional cancelable option periods where failure to exercise such options would result in an economic penalty. Consistent with this policy rent expense is recorded beginning at the start of the Organization's use of the property or build-out period during which time the Organization may not make rent payments.

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions using a reasonable allocation method that is consistently applied as follows:

Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by key personnel.

Occupancy, depreciation, and interest are allocated on a square foot basis dependent on the programs and supporting activities occupying the space.

Office expenses and supplies, insurance, and other expenses that cannot be directly identified are allocated on the basis of employee headcount for each program and supporting activity.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the

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**Notes to the Financial Statements
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)**

annual report or donor acknowledgments contain requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

Recent Accounting Standards

The Organization adopted *ASU 2014-09 – Revenue from Contracts with Customers (Topic 606)* during the year ended June 30, 2021. This guidance requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior year’s summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 3: CONTRIBUTIONS RECEIVABLE

Contributions receivable, including grants and pledges receivable, are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. The Organization has evaluated the value of the discount and concluded that it was not material for recognition. The Organization considers all contributions receivable to be fully collectible at June 30, 2021. Accordingly, no allowance for doubtful accounts was deemed necessary. If amounts become uncollectible, they are charged to expense in the period in which that determination is made. Contributions receivable consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Due within one year	\$ 888,197	\$ 602,570
Due between one and five years	<u>100,000</u>	<u>245,000</u>
Total	<u>\$ 988,197</u>	<u>\$ 847,570</u>

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

NOTE 4: INVESTMENTS

The fair value of investments consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 2,479,974	\$ 3,039,839
Fixed income	860,138	-
Bond funds	959,712	-
Exchange traded funds	<u>3,129,922</u>	<u>2,522,015</u>
Total	<u>\$ 7,429,746</u>	<u>\$ 5,561,854</u>

Investment Activity

Investment activity consisted of the following for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 60,999	\$ 103,796
Realized and unrealized gains (losses)	<u>297,914</u>	<u>21,702</u>
Total	<u>\$ 358,913</u>	<u>\$ 125,498</u>

Investment Allocation

The Organization allocates investments in two different portfolios. Investment of donor restricted funds pending expenditure are invested entirely in money market fund and cash equivalents. Funds without donor restriction are invested in a portfolio with an approximate allocation of 55% equity, 2% real estate and 43% fixed income and money market funds.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 - Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the assets or liability.

Fair value inputs of assets measured on recurring basis were as follows at June 30, 2021:

	<u>Level 1</u>
Cash and money market funds	\$ 2,479,974
Exchange traded funds	3,129,922
Fixed income – U.S Treasuries	860,138
Bond Funds	<u>959,712</u>
Total	<u>\$ 7,429,746</u>

826 VALENCIA, INC.

Notes to the Financial Statements For the Year Ended June 30, 2021 (With Comparative Totals for the Year Ended June 30, 2020)

Methodologies Used

Exchange traded funds: Valued based on the most recent closing price reported on the primary active market on which the individual securities are traded as of the last business day of the fiscal year.

Money market funds: For open ended money market mutual funds, values are based on the net asset value of fund shares as of the last business day of the fiscal year, which is the price used for transactions on that date.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2021</u>	<u>2020</u>
Furniture and equipment	\$ 12,281	\$ 12,281
Computer software and website	32,316	32,316
Computer hardware	58,623	42,541
Leasehold improvements	2,873,363	2,872,318
Less accumulated depreciation	<u>(1,011,908)</u>	<u>(783,166)</u>
Total	<u>\$ 1,964,675</u>	<u>\$ 2,176,290</u>

NOTE 7: PAYCHECK PROTECTION PROGRAM LOAN

PPP – Second Round

The Organization received a paycheck protection program (PPP) loan of \$487,317 bearing interest of 1% with a maturity date of February 2023 which it accounts for under FASB 470. The proceeds from the loan will remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the Organization has been “legally released” or (2) the Organization pays off the loan. Future maturities are due as follows for the years ended June 30:

2022	\$ 215,359
2023	<u>271,958</u>
Total	<u>\$ 487,317</u>

The Organization may be eligible for forgiveness of some or all of this loan upon satisfactions of program conditions.

PPP - First Round

The Organization received notice during the year ended June 30, 2021 that funds received under the PPP – First Round funding had been forgiven and recognized \$479,300 as support upon notice of forgiveness.

PPP Contingency

Guidance related to this program is evolving. The SBA reserves the right to audit any forgiveness granted, and such audit activity, if any, may result in changes to amounts forgiven or a requirement to return funds received. Management is of the opinion that the Organization complied with the terms of the PPP funding it has received.

826 VALENCIA, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

NOTE 8: COMMITMENTS

Operating Leases

The Organization leases office space at 826 Valencia St., 828A Valencia St. and 166-180 Golden Gate Ave. in San Francisco under non-cancelable leases that expire through May 2030. Future minimum lease payments were as follows for the years ended June 30:

2022	\$ 261,543
2023	208,971
2024	195,527
Thereafter	<u>1,344,267</u>
Total	<u>\$ 2,010,308</u>

Rent for the years ended June 30, 2021 and 2020 was \$260,542 and \$260,866, respectively. In addition, the Organization received in-kind rent valued at \$72,000 for the year ended June 30, 2021.

Options to Renew

The Organization has options to renew its leases under certain terms and conditions.

<u>Location</u>	<u>Renewal Period</u>	<u>Rent Change</u>
826 Valencia St.	5 years	Fixed
166-180 Golden Gate Ave.	5 years	Fair Market

Scholarships

As further described in Note 9, in addition to the payables reflected on the financial statements, the Organization has awarded \$273,100 in scholarship awards that have unmet conditions. The Organization may designate a portion of its net asset without donor restriction to cover the payment of such scholarships if such commitments exceed the available balance in net assets with donor restrictions for scholarship purposes.

NOTE 9: SCHOLARSHIPS PAYABLE

The Organization provides scholarships to college students with terms up to 10 years. Approved and accepted scholarships made by the Organization may include certain conditions or milestones which must be met by the recipient in order to receive future scholarship payments. The Organization recognizes scholarship expense and payables once the conditions of the award are met. As of June 30, 2021 scholarships payable consisted of the following:

Scholarships awarded but unpaid	\$ 490,492
Less awards with unmet conditions	<u>(273,100)</u>
Total	<u>\$ 217,392</u>

NOTE 10: CONTINGENCIES

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their

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Notes to the Financial Statements
For the Year Ended June 30, 2021
(With Comparative Totals for the Year Ended June 30, 2020)

terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

NOTE 11: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions were available as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Invested in property and equipment	\$ 1,964,675	\$ 2,176,290
Designated - reserve	1,831,546	1,642,046
Undesignated	<u>6,770,499</u>	<u>5,069,583</u>
Total	<u>\$ 10,566,720</u>	<u>\$ 8,887,919</u>

NOTE 12: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Purpose restriction	\$ 658,877	\$ 1,143,781
Future operations	<u>695,000</u>	<u>710,000</u>
Total	<u>\$ 1,353,877</u>	<u>\$ 1,853,781</u>

NOTE 13: FUNDRAISING EVENT

The Organization held a virtual fundraising event during the year. Activities related to the event were as follows during the year ended June 30, 2021:

Contributions and sponsorships	\$ 348,942
Tickets and other	20,890
Less costs of event expenses	<u>(60,080)</u>
Total	<u>\$ 309,752</u>

NOTE 14: IN-KIND SUPPORT

The Organization received the benefit of the following in-kind contributions during the years ended June 30:

	<u>2021</u>	<u>2020</u>
Publishing, legal and other services	\$ 15,981	\$ 45,035
Event and other supplies	-	7,265
Rent	<u>72,000</u>	<u>72,000</u>
Total	<u>\$ 87,981</u>	<u>\$ 124,300</u>

NOTE 15: STORE REVENUE

The Organization operates three retail stores in San Francisco. The Organization recognizes revenue related to store sales at the point in time items are sold in person or shipped for online orders by the Organization. Revenue related to the stores was as follows for the years ended June 30:

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	<u>2021</u>	<u>2020</u>
Gross receipts	\$ 26,908	\$ 106,458
Less cost of goods sold	<u>(16,569)</u>	<u>(33,479)</u>
Total	<u>\$ 10,339</u>	<u>\$ 72,979</u>

NOTE 16: CONDITIONAL PROMISES TO GIVE

Contributions

In addition to the activity on the financials, the Organization may receive contributions with future payments subject to certain conditions, performance barriers or rights of revocation. It is the Organization's policy to defer revenue recognition of conditional amounts until such conditions have been satisfied. As of June 30, 2021, conditional grants outstanding consisted of the following:

<u>Grant</u>	<u>Award</u>	<u>Recognized</u>	<u>Remaining</u>	<u>Condition</u>
Grant I	\$200,000	\$100,000	\$100,000	Program performance
Grant II	\$1,575,000	\$225,000	\$1,350,000	Program performance
Grant III	\$500,000	\$400,000	\$100,000	Matching

In-kind Rent

The Organization received a conditional in-kind promise to give for office and program rental space. The lease term is for 10 years ending in April 2029 with one option to renew for an additional 10 years. The use of the space is conditional on the provision of program services. The Organization recognized \$72,000 of in-kind rent during the year ended June 30, 2021 based on the cost of similar rental space the Organization leases in San Francisco.

NOTE 17: CONCENTRATIONS

Concentration of Credit Risk

At times, the Organization may have deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Contributions Receivable

As of June 30, 2021 approximately 39% of contributions receivable were from one funder.

NOTE 18: RETIREMENT PLAN

The Organization has a defined contribution retirement plan (the Plan) under section 401(k) of the Internal Revenue Code which allows for both employer contributions and pre-tax employee contributions. The Plan covers all employees over the age of 21 immediately upon hire. The plan provides for employer matching contributions up to 1% of eligible employee's salary. The Organization contributed \$19,798 and \$15,592 for the years ended June 30, 2021 and 2020, respectively.

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NOTE 19: RELATED PARTY TRANSACTIONS

826 National Chapter Fees and Grants

The Organization is related to 826 National through a chapter affiliation agreement. The Organization pays an annual fee to 826 National based on the Organization's gross revenues for the preceding year in exchange for brand building services, evaluation and chapter and program development, and various administrative, financial and accounting support services. For the years ended June 30, 2021 and 2020, chapter fees paid to 826 National totaled \$30,000 and \$60,000, respectively. The Organization received certain grants and other funding from 826 National.

NOTE 20: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 are:

Cash and cash equivalents	\$ 2,167,391
Accounts receivable	155,620
Contributions receivable, current	888,197
Investments	7,429,746
Less purpose-restricted net assets	<u>(658,877)</u>
Total	<u>\$ 9,982,077</u>

As part of the Organization's liquidity management plan, the Organization invests cash in excess of daily requirements in cash and cash equivalents and short-term investments.

NOTE 21: SUBSEQUENT EVENTS

The Organization has evaluated subsequent events and has concluded that as of February 9, 2022, the date that the financial statements were available to be issued, there were no significant subsequent events to disclose beyond the following:

Public Health Order - Coronavirus

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak). The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude of the effect that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact on its financial condition, liquidity, operations and workforce.